

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7767

BILL NUMBER: HB 1832

DATE PREPARED: Jan 10, 2001

BILL AMENDED:

SUBJECT: Additional income tax deduction for the elderly.

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**FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL**

IMPACT: State

Summary of Legislation: This bill increases from \$500 to \$1,000 the additional deduction from Adjusted Gross Income (AGI) for taxpayers and their spouses who qualify for the federal deduction for the aged, subject to certain income limits.

Effective Date: January 1, 2001 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to incorporate this change. These expenses could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: *The impact associated with this bill is estimated to be a \$8.2 M reduction in state revenue in FY 2002. The revenue loss in FY 2003 is projected to be \$8.3 M.*

Under current law, Indiana taxpayers ages sixty-five and older are allowed an additional deduction of up to \$500 if their reported federal AGI is less than \$40,000. This bill would increase the amount of this deduction to \$1,000. According to 1998 DOR income tax statistics, about 469,400 taxpayers were eligible for this deduction. Increasing the limit by \$500 would result in a potential reduction in state Individual AGI Tax revenue of \$7,980,000 (469,400 multiplied by \$500, or \$234,692,000, then multiplied by the AGI Tax rate of 3.4%).

This deduction would be effective for tax years beginning January 1, 2001. The DOR's data show that exemptions claimed for persons over sixty-five and/or blind since 1992 have been increasing at a rate of 1.05% annually. Using this growth rate, the additional \$500 elderly deduction for taxpayers with under \$40,000 in federal AGI would reduce individual income tax revenue by \$8.2 M in FY 2002 and \$8.3 M in FY 2003. Individual AGI Tax revenue is deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties imposing local option income taxes will experience a minimal reduction in their revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: Department of State Revenue's 1998 income tax data.